



## Credit vs. Debit: Which Card Will Earn You More Cash Back?

### Description

Cash back credit cards come with high earn rates that allow you to amass a significant amount of money on everyday shopping. But those earnings come at a risk: credit card debt. The APRs on credit cards are high enough to throw you into a spiral of debt, and if you're not disciplined with your shopping, they can rob you of the ability to build wealth.

That's where cash back debit cards come in.

Issued by banks, cash back debit cards allow you to earn cash on your everyday shopping without requiring you to borrow money. They can be lucrative, but are they really *that* effective? Let's compare cash back credit and debit and see when you should one over the other.

### The case for cash back debit cards

First off, let's clear the air: a cash back debit card **will rarely earn more** for everyday shopping than a [cash back credit card](#). Most debit cards will give you around 1% back, which is less than the earn rate on Canada's top cash back cards.

That said, a cash back debit card trumps its credit card counterpart in one important instance: when the cardholder is saddled with credit card debt.

Unlike debit cards, credit cards give you a line of credit. For that reason, they can delude you into thinking you have more money to spend than you actually do. When that happens you make purchases you can't pay back immediately. Your credit card has a grace period (usually 30 days after your billing cycle ends), but if you don't pay off your statement balance before the due date, you'll incur interest for every day you fail to repay what you borrowed.

That's when your cash back becomes essentially useless. You may have earned \$100 on your \$5,000 purchase, but if you pay \$200 in interest charges, you're down \$100.

In this case, a cash back debit card would be a better fit. You still get cash back—despite the earn rate

being lower—and you won't risk borrowing money you can't afford to pay back.

## The case for cash back credit cards

That said, if you can avoid the temptation to overspend, a [cash back credit card](#) will certainly earn you more money.

Many of [Canada's top cash back credit cards](#) will give you 1% to 2% back for everyday shopping. That's not much more than a cash back debit card, true. But that's only the base rate. Often, in addition to this rate, your cash back credit card will offer a bonus rate on certain expenses, such as groceries, entertainment, gas, or utilities. Make a purchase under these categories, and you could earn upwards of 5%.

In addition, most cash back credit cards come with valuable shopping insurance. You can get price protection, for instance, which will refund the difference when an item you bought goes on sale. You'll also get extended warranties on certain purchases, as well as purchase protection, which protects your item against defects and damage.

Debit cards don't offer insurance, nor do they offer much fraud protection. If a fraudster got a hold of your debit card, they could potentially drain your bank account. In that case, no amount of cash back will replace what you lost. Credit cards, on the other hand, offer fraud protection, meaning you won't be liable if a fraudster charges purchases to your card.

## So, which one is right for you?

A cash back debit card could help you earn extra, without tempting you to overspend. Just be warned: the market of cash back debit cards in Canada is surprisingly thin. If you're considering one, you might have to switch banks, as not all offer these kinds of debit cards.

If you can manage to control your spending, then hands-down the best option is a [cash back credit card](#). You'll earn far more cash back, and you have a larger selection to choose from.

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**Date**

2025/08/02

**Date Created**

2022/01/04

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